

**Tennessee Board of Regents
Northeast State Technical Community College**

**For the Years Ended
June 30, 2003, and June 30, 2002**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

September 7, 2004

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and

Dr. William W. Locke, President
Northeast State Technical Community College
P. O. Box 246
Blountville, Tennessee 37617

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Northeast State Technical Community College, for the years ended June 30, 2003, and June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
04/039

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Northeast State Technical Community College
For the Years Ended June 30, 2003, and June 30, 2002

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 2003, and June 30, 2002

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**Tennessee Board of Regents
Northeast State Technical Community College
For the Years Ended June 30, 2003, and June 30, 2002**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Northeast State Technical Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

In March 1963, the General Assembly passed House Bill 633 authorizing the establishment of a statewide system of area vocational-technical schools and regional technical schools. Tri-Cities State Area Vocational School began operations in 1966 and became a technical institute on July 1, 1978.

Until July 1, 1983, Tri-Cities State Technical Institute operated under the Tennessee State Board of Vocational Education through the Tennessee Department of Education, Division of Vocational-Technical Education. At that time, the 93rd General Assembly transferred the governance of Tri-Cities State Technical Institute to the State Board of Regents.

Effective July 1, 1990, the General Assembly granted community college status to Tri-Cities State Technical Institute and changed its name to Northeast State Technical Community College. As a comprehensive community college, Northeast State provides university parallel programs designed for students desiring to transfer to another college or university, career programs for students planning to enter the workforce immediately upon graduation, and continuing education and community service programs for professional growth and personal enrichment. These two-year programs lead to an associate of art, associate of science, or associate of applied science degree.

ORGANIZATION

The governance of Northeast State Technical Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2001, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2003, and June 30, 2002. Northeast State Technical Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

Northeast State Technical Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Elizabethton. Under this agreement, Northeast State Technical Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2003, and June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.



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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

July 1, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and June 30, 2002, and have issued our report thereon dated July 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 11, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

The Honorable John G. Morgan
July 1, 2004
Page Two

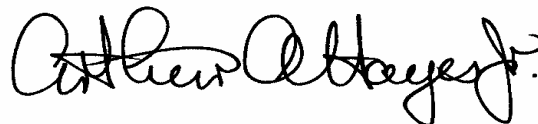
providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds



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Independent Auditor's Report

July 1, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of Northeast State Technical Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2003, and June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Northeast State Technical Community College, as of June 30, 2003, and June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

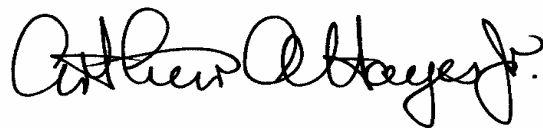
The Honorable John G. Morgan
July 1, 2004
Page Two

As discussed in Note 11, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 8 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2004, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

Management's Discussion and Analysis

This section of Northeast State Technical Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2003, with comparative information presented for the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Northeast State Technical Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The statement of net assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is expendable restricted net assets. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Statements of Net Assets (in thousands of dollars)		
	<u>2003</u>	<u>2002</u>
Assets:		
Current assets	\$ 6,865	\$ 6,905
Capital assets, net	24,172	23,161
Other assets	4,983	4,799
Total assets	<u>36,020</u>	<u>34,865</u>
Liabilities:		
Current liabilities	5,197	5,025
Noncurrent liabilities	383	242
Total liabilities	<u>5,580</u>	<u>5,267</u>
Net assets:		
Invested in capital assets, net of related debt	24,172	23,128
Restricted – expendable	43	39
Unrestricted	6,225	6,431
Total net assets	<u>\$30,440</u>	<u>\$29,598</u>

- ❑ Current assets, in the form of \$3,588,000 in cash and cash equivalents, increased in fiscal year 2003 compared to fiscal year 2002 by \$71,000. The increase is primarily related to cash and cash equivalents of \$277,000 held by Northeast State as fiscal agent for the Tennessee Technology Center at Elizabethton. The cash and cash equivalents for the technology center are offset by a current liability (deposits held in custody for others) on Northeast State's financial statements. Also, a reduction in Northeast State's current cash and cash equivalents of \$202,000 is offset by a similar increase in noncurrent cash and cash equivalents to reflect the college's designation of these funds for renovations and similar projects on campus.
- ❑ The college's accounts and notes receivable decreased by \$347,000 due primarily to the collection of insurance proceeds, related to water damage to the new library building, that were still outstanding at June 30, 2002.
- ❑ Short-term investments held by the college for the Northeast State Technical Community College Foundation increased in fiscal year 2003 by \$246,000 and are included in current assets on the college's statement of net assets. The college is the fiscal agent for the foundation, and the current assets of the foundation are offset by a current liability (deposits held in custody for others) on Northeast State's financial statements. The foundation's total assets represented approximately 34% in fiscal year 2003 and 32% in fiscal year 2002 of the total current assets shown on the college's financial statements.
- ❑ The college's ratio of current assets to current liabilities is 1.83 to 1 at June 30, 2003, exclusive of assets and liabilities related to deposits held in custody for others. At June

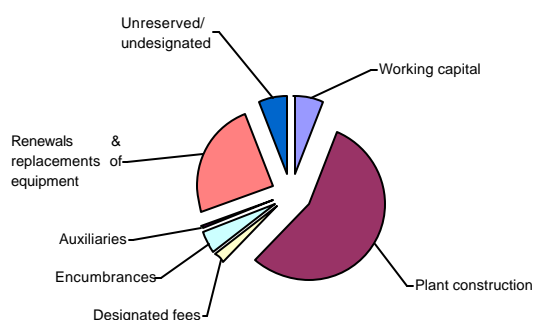
30, 2002, the current ratio was 1.77 to 1, exclusive of assets and liabilities related to deposits held in custody for others.

- ❑ Noncurrent assets, exclusive of investments in capital assets, increased by \$184,000 primarily related to cash designated for future plant construction and renewal and replacement funds set aside for the replacement of computer, printing, instructional, and motor vehicle equipment.
- ❑ Northeast State's current liabilities at the end of fiscal year 2003 were \$171,000 more than at the end of fiscal year 2002. Four hundred forty-one thousand of a decrease in accounts payable was due to accrued water damage repairs at the new library at June 30, 2002. Payments were made in fiscal year 2003 and were funded with insurance proceeds. This reduction in accounts payable was offset by an increase of \$164,000 in accrued liabilities related to employee payroll and benefit costs. These costs increased during the year because of an across-the-board pay increase to employees, and a 25% increase in the employer-paid portion of employee health insurance premiums. The current portion of liability for compensated absences also decreased by \$82,000 primarily due to a modification in the formula used for this calculation to more accurately reflect this current liability. An offsetting increase in the noncurrent portion of compensated absences was also reflected as a result of the formula change. Deposits held in custody for others also increased by \$620,000.
- ❑ Deposits held in custody for others make up 61% of the current liabilities at June 30, 2003, compared to 51% at June 30, 2002. This liability represents the net assets held by the college for the Northeast State Technical Community College Foundation, the Tennessee Technology Center at Elizabethton, and various student clubs.
- ❑ The college made the final payments on its long-term debt during fiscal year 2003, reducing the current portion of its debt by \$33,000 at June 30, 2003, compared to June 30, 2002. The college owed no long-term debt obligations at June 30, 2003.
- ❑ Noncurrent liabilities consist of the college's long-term liability for employees' compensated absences and deferred revenues related to restricted grants. The total compensated absences liability, which increased by \$55,000 during fiscal year 2003, will be funded from future state appropriations. See Note 7 for additional information related to the college's long-term liabilities.
- ❑ The college continues to invest in capital assets in support of its mission. Amounts invested in capital assets increased \$1,044,000 during fiscal year 2003. See additional discussion related to capital assets below and in Note 6 of the financial statements.
- ❑ All of the college's restricted net assets for both fiscal year 2003 and fiscal year 2002 were expendable. At June 30, 2003, donors had designated approximately 60% of the college's restricted expendable net assets for use in instructional departments compared to 55% at year-end 2002.

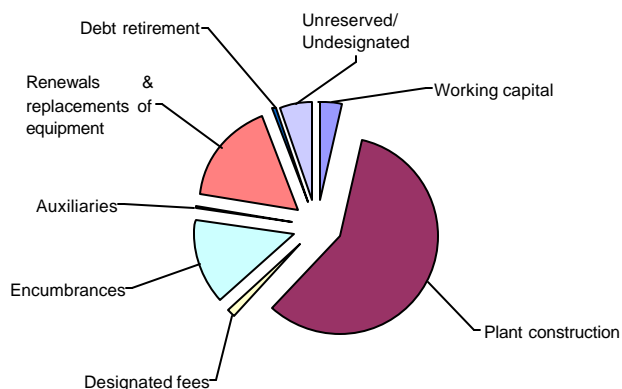
- The college's unrestricted net assets at June 30, 2003, decreased by \$206,000 from fiscal year 2002. This was due, in part, to a 5% impoundment on state appropriated funding imposed by the state in March of 2003.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, future debt service, and capital projects. The following graphs show the allocations:

2003 Allocations of Unrestricted Net Assets



2002 Allocations of Unrestricted Net Assets



- The allocation for working capital increased at year-end June 30, 2003, by \$150,000. Working capital is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the statement of net assets date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.
- An April 15, 2003, cut-off date for departments to make purchases against fiscal year 2003 budgets was established after a 5% impoundment of state appropriations was

implemented. This resulted in a \$611,000 reduction in the allocation for encumbrances at year-end June 30, 2003, compared to year-end June 30, 2002.

- ❑ At year-end June 30, 2003, \$83,000 of technology access fees designated for technology improvement in instructional programs were unexpended. This resulted in an increase of \$55,000 in the allocation for designated fees at June 30, 2003, compared to June 30, 2002.
- ❑ Funds allocated for capital projects, renewal and replacement of equipment, and deferred maintenance increased at June 30, 2003, by \$193,000, compared to June 30, 2002.

The Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

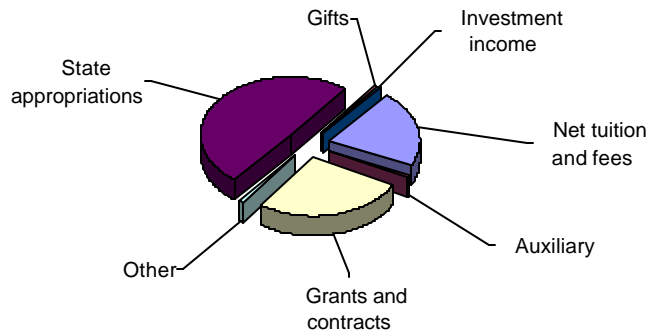
Statements of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Net tuition and fees	\$ 4,478	\$ 4,065
Grants and contracts	5,895	4,914
Auxiliary enterprises	172	172
Other	182	163
Total operating revenues	<u>10,727</u>	<u>9,314</u>
Operating expenses	<u>22,077</u>	<u>19,863</u>
Operating loss	<u>(11,350)</u>	<u>(10,549)</u>
Nonoperating revenues and expenses:		
State appropriations	10,669	9,864
Gifts	34	74
Investment income	131	186
Other revenues and expenses	(2)	(13)
Total nonoperating revenues and expenses	<u>10,832</u>	<u>10,111</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(518)</u>	<u>(438)</u>
Other revenues, expenses, gains, or losses:		
Capital appropriations	1,341	1,558
Capital grants and gifts	14	20
Other	4	-
Total other revenues, expenses, gains, or losses	<u>1,359</u>	<u>1,578</u>
Increase (decrease) in net assets	<u>841</u>	<u>1,140</u>
Net assets at beginning of year	29,598	37,258
Cumulative effects of changes in accounting principle	-	(8,800)
Net assets at beginning of period, restated	<u>29,598</u>	<u>28,458</u>
Net assets at end of year	<u><u>\$ 30,439</u></u>	<u><u>\$ 29,598</u></u>

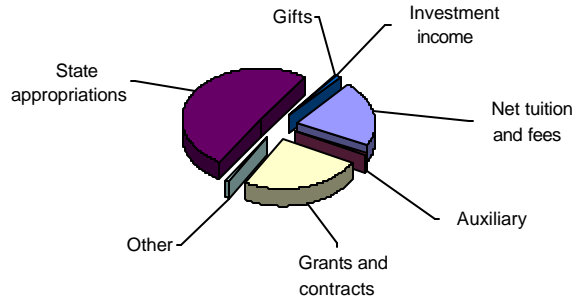
Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the year ended June 30, 2003, and the year ended June 30, 2002. Amounts are presented in thousands of dollars.

2003 Revenues by Source



2002 Revenues by Source



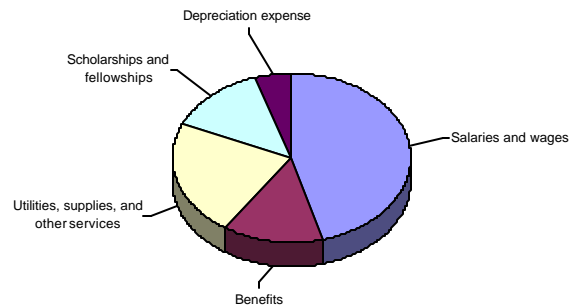
- ❑ Tuition and fees increased by \$413,000 in fiscal year 2003 compared to fiscal year 2002 primarily due to a 7% tuition increase and an increase in student enrollment experienced by the college. Despite the increase in tuition, revenues from this source continued to represent only approximately 21% of the resources available to the college to support its operations in fiscal year 2003.
- ❑ Revenue received from grants and contracts increased by \$981,000 due primarily to an increase in federal grants received by the college.
- ❑ Despite a 5% impoundment of state appropriations, this major funding source for the college increased by \$805,000 in fiscal year 2003 over fiscal year 2002. Revenues in the form of state appropriations represent 49.5% of the college's resources available to support operations, exclusive of capital appropriations and gifts for capital purposes.
- ❑ Capital appropriations received from the state decreased in fiscal year 2003 by \$217,000. A major new building construction was completed in fiscal year 2002.

Expenses

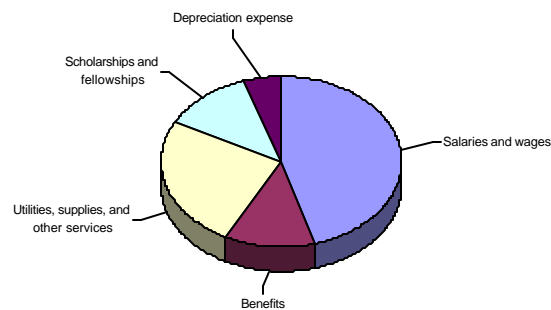
Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below.

Natural Classification (in thousands of dollars)		
	<u>2003</u>	<u>2002</u>
Salaries and wages	\$ 10,135	\$ 9,060
Benefits	2,978	2,424
Utilities, supplies, and other services	4,896	4,972
Scholarships and fellowships	2,970	2,371
Depreciation expense	1,098	1,036
Total	<u><u>\$22,077</u></u>	<u><u>\$19,863</u></u>

2003 Operating Expenses by Natural Classification



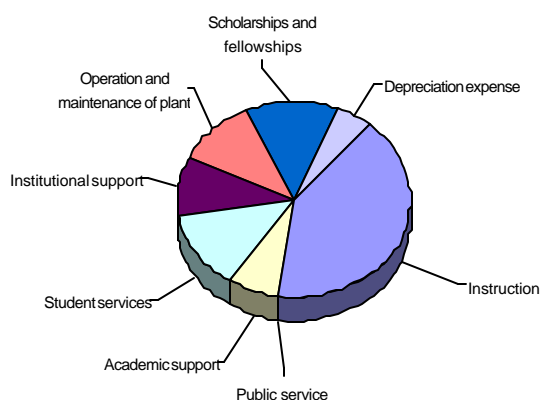
2002 Operating Expenses by Natural Classification



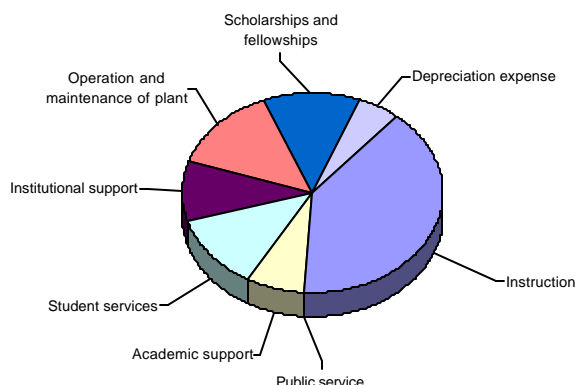
- ❑ The college experienced a \$1,075,000 increase in salaries and wage expense during fiscal year 2003. This was primarily due to an average 5.9% across-the-board increase for all full-time employees and an increase in adjunct faculty costs to support the increase in enrollment experienced by the college.
- ❑ The college, in fiscal year 2003, experienced a \$554,000 increase in benefits. Employer-paid benefits, such as health insurance premiums and retirement contributions, increased by 30% during fiscal year 2003. The costs of benefits that are based on a percentage of compensation were also impacted by the increase in salaries and wages.
- ❑ Scholarships and fellowships increased by \$599,000 in fiscal year 2003 primarily due to increased federal PELL grants to students and an increase in the number of students that received federal financial aid and Tennessee Student Assistance Corporation awards.

Functional Classification (in thousands of dollars)		
	<u>2003</u>	<u>2002</u>
Instruction	\$ 9,043	\$ 7,963
Public service	1	1
Academic support	1,627	1,438
Student services	2,858	2,408
Institutional support	2,146	1,862
Operation and maintenance of plant	2,488	2,784
Scholarships and fellowships	2,816	2,371
Depreciation expense	1,098	1,036
Total	<u>\$ 22,077</u>	<u>\$ 19,863</u>

2003 Operating Expenses by Function



2002 Operating Expenses by Function



- ❑ Expenses in the instructional function increased by \$1,080,000 in fiscal year 2003 over fiscal year 2002. Student enrollment at the college continued to increase in fiscal year 2003. The addition of faculty and the increased costs for adjunct faculty to support the increased enrollment account for the major portion of this increase. An increase in the compensation for faculty and increased costs of benefits for full-time employees make up the majority of the balance of the increased costs.
- ❑ Student service costs increased by \$450,000 during fiscal year 2003. The majority of this increased cost is attributable to new grant awards received by the college. Additionally, the college allocated resources to the admissions, counseling, and financial aid offices to support the increased student enrollment.
- ❑ Expenses in the institutional support area increased by \$284,000 in fiscal year 2003. The majority of this increase occurred in the public relations, fiscal operations, and the security functions as additional resources were added to support the increase in student enrollment. Increased compensation for full-time employees and the increased costs of benefits for full-time employees contributed to the increased costs.
- ❑ Expenditures for maintenance and operation of plant decreased by \$296,000 primarily due to one-time, noncapital expenditures incurred with the opening of a new library in fiscal year 2002.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statements of Cash Flows (in thousands of dollars)		
	<u>2003</u>	<u>2002</u>
Cash provided (used) by:		
Operating activities	\$ (10,213)	\$ (9,444)
Noncapital financing activities	11,129	9,860
Capital and related financing activities	(793)	364
Investing activities	131	186
Net increase (decrease) in cash	254	966
Cash, beginning of year	8,316	7,350
Cash, end of year	\$ 8,570	\$ 8,316

- ❑ Cash expended for operations exceeded cash received from operations in both fiscal year 2003 and fiscal year 2002. This is largely due to a significant source of cash, state appropriations, being shown as noncapital financing activities as defined by GASB Statement No. 35.
- ❑ Cash received from tuition and fees in fiscal year 2003 exceeded fiscal year 2002 by \$391,000 primarily due to a 7.5% increase in tuition and an increase in student enrollment.
- ❑ Cash received from grants and contracts increased by \$1,195,000 primarily due to increased student PELL grants and Tennessee Student Assistance Corporation grants to students and other federal grants received by the college.
- ❑ Cash provided by noncapital financing activities increased by \$1,269,000 primarily due to an increase in state appropriations received by the college. Additionally, changes in deposits held for others increased significantly during fiscal year 2003.
- ❑ The college's cash used by operating activities increased by \$769,000 during fiscal year 2003 while cash provided by noncapital financing activities increased by \$1,269,000, \$301,000 of which is related to changes in deposits held for others. The college invested an additional \$1,157,000 in capital assets during fiscal year 2003 over fiscal year 2002.
- ❑ Although the college's cash and cash equivalents, exclusive of deposits held for others, decreased by \$124,000 in fiscal year 2003, the college's ability to meet its current liabilities with current assets remains strong as indicated by its current ratio of 1.83 to 1.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2003, Northeast State Technical Community College had \$24,172,000 invested in capital assets, net of accumulated depreciation of \$8,309,000. Depreciation charges totaled \$1,097,000 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)		
	<u>2003</u>	<u>2002</u>
Land	\$ 1,829	\$ 1,829
Land improvements & infrastructure	701	355
Buildings	19,645	19,035
Equipment	993	919
Library holdings	787	821
Projects in progress	217	202

In fiscal year 2003, the college substantially completed a major renovation to the space vacated by moving the library into a new facility. This renovation, funded with state capital appropriations of approximately \$1.1 million, provided up-to-date facilities for the admissions and records department, the business office, the information technology center, and executive management offices.

A parking lot that provides approximately 500 additional student parking spaces was completed in fiscal year 2003 at a cost of \$221,000. Modifications to the college's central energy system were completed during fiscal year 2003 at a cost of approximately \$170,000. These projects were funded through a combination of state capital appropriations and unrestricted net assets designated for capital purposes.

New equipment purchases during fiscal year 2003 exceeded similar purchases in fiscal year 2002 by \$205,000. The college continues to provide the latest technology to its students using a technology access fee charged to each student. The board members of the Tennessee Board of Regents have designated this fee for technology improvements in the instructional programs. Approximately \$184,000 was used during fiscal year 2003 for equipment purchases to be used for instruction. Additional unrestricted current operating funds of approximately \$37,000 were expended to support the instructional programs through updating audiovisual and multi-media equipment and information technology center equipment. Snow removal equipment to support the increased parking facilities was purchased from current operating funds at a cost of \$23,000.

The college maintains a renewal and replacement fund to replace equipment in its service centers, e.g., print shop, motor vehicle pool, computer services, and telephone services. During fiscal year 2003, the college replaced printing equipment and motor vehicles at a cost of \$67,000.

Expenditures for library holdings in fiscal year 2003 were \$146,000 less than fiscal year 2002. Two factors contributed to this reduction: (a) During fiscal year 2002, the college occupied a new library with approximately 48,000 additional square feet of space, and additional funds were earmarked to expand library holdings that could be accommodated in the additional space. (b) In recognition of the changing media for library resources, the college's library staff has expanded the use of on-line and other electronic media.

Various other renovation projects were started and/or completed in fiscal year 2003. These include a security/welcome area at the main entrance to the campus, expansion of the bookstore facilities, re-roofing of buildings, replacement of HVAC systems, renovations for ADA compliance, and adding physical activities facilities. These projects were funded through a combination of state capital appropriations and unrestricted net assets designated for capital projects.

It is expected that no additional capital appropriations for new capital projects will be provided by the state during fiscal year 2004. The college will continue to use unrestricted net assets designated for capital projects for minor renovations and upgrades on the campus. It is anticipated that renovations to leased properties will be initiated during fiscal year 2004. The college plans to continue to develop its physical activities facilities with the addition of a walking trail on campus. Other renovation projects, necessitated by the relocation of various functions after occupying the new library, will also be completed during fiscal year 2004.

More detailed information about the college's capital assets is presented in Note 6 to the financial statements.

Debt

At June 30, 2003, the college had no debt outstanding. The table below summarizes the amounts of June 30, 2002, debt by type of debt instrument.

Debt by Type

	<u>2003</u>	<u>2002</u>
Notes payable	\$ -	\$ 15,000
Loans payable	-	18,000

Northeast State did not incur any additional debt during fiscal year 2003. Repayments of principal of \$33,000 were made during fiscal year 2003, which completed the payment of all long-term debt owed by Northeast State. The college does not anticipate any new debt issuance in the foreseeable future. More detailed information about the college's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

Due to financial stresses within state government, the Governor recommended and state legislators approved a 9% base budget reduction in state appropriated operating funds for all state departments. Higher education was included in this reduction, which became effective July 1, 2003. The college's base budget reduction was \$988,000.

The Tennessee Board of Regents members voted during June 2003 to increase tuition rates at all of its institutions by 14% effective with the fall 2003 semester. The increased tuition rate has not had a negative impact upon Northeast State's fall semester 2003 student enrollment level. However, should state support continue to remain flat or decline in the future forcing additional tuition rate increases, student access to the college could be negatively impacted.

The college continues to pursue its long-range plan to expand its facilities through new construction on its main campus. However, because of the economic pressures faced by the state, no new construction projects were approved for higher education during the last three fiscal years. Although the future prospects for new construction projects are uncertain, the college's request for a humanities building has been among the top six projects recommended for funding by the Tennessee Higher Education Commission should funding become available.

Utilities costs continue to be of concern to the college. Several cost reduction initiatives have been implemented, and the college will continue to investigate ways to further reduce this cost.

Even in view of the uncertainty of state funding, the college's management believes the financial position of the college is strong. Using numerous cost containment methods, the college has been able to meet the demands placed upon it by continuous enrollment growth, and plans to continue to provide increased access to the citizens in its service area.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Claire Stinson, Office of the Vice President for Business Affairs, Northeast State Technical Community College, P. O. Box 246, Blountville, TN 37617.

NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2003, AND JUNE 30, 2002

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 3)	\$ 3,587,943.88	\$ 3,517,169.74
Short-term investments (Notes 3 and 4)	2,334,811.82	2,089,078.81
Accounts, notes, and grants receivable (net) (Note 5)	919,720.47	1,266,621.64
Inventories (at lower of cost or market)	14,658.66	19,327.47
Prepaid expenses and deferred charges	7,860.52	13,186.48
Total current assets	<u>6,864,995.35</u>	<u>6,905,384.14</u>
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 3)	4,982,346.56	4,799,422.91
Capital assets (net) (Note 6)	24,171,895.72	23,160,767.39
Total noncurrent assets	<u>29,154,242.28</u>	<u>27,960,190.30</u>
Total assets	<u>36,019,237.63</u>	<u>34,865,574.44</u>
LIABILITIES		
Current liabilities:		
Accounts payable	185,162.10	709,886.18
Accrued liabilities	1,230,669.34	1,066,573.79
Deferred revenue	395,571.09	368,033.40
Compensated absences (Note 7)	186,234.96	268,682.65
Accrued interest payable	-	330.00
Long-term liabilities, current portion (Note 7)	-	33,040.00
Deposits held in custody for others	3,199,356.02	2,578,979.46
Total current liabilities	<u>5,196,993.51</u>	<u>5,025,525.48</u>
Noncurrent liabilities:		
Deferred revenue	3,725.14	-
Compensated absences (Note 7)	379,087.50	241,776.67
Total noncurrent liabilities	<u>382,812.64</u>	<u>241,776.67</u>
Total liabilities	<u>5,579,806.15</u>	<u>5,267,302.15</u>
NET ASSETS		
Invested in capital assets, net of related debt	24,171,895.72	23,127,727.39
Restricted for:		
Expendable:		
Scholarships and fellowships	9,946.87	7,842.53
Instructional department uses	25,774.94	21,623.46
Other	7,113.03	10,419.94
Unrestricted (Note 8)	6,224,700.92	6,430,658.97
Total net assets	<u>\$ 30,439,431.48</u>	<u>\$ 29,598,272.29</u>

The notes to the financial statements are an integral part of this statement.

**NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002**

	Year Ended <u>June 30, 2003</u>	Year Ended <u>June 30, 2002</u>
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$2,191,867.97 for the year ended June 30, 2003, and \$1,961,848.32 for the year ended June 30, 2002)	\$ 4,477,812.68	\$ 4,065,519.19
Governmental grants and contracts	5,742,213.45	4,817,895.47
Non-governmental grants and contracts	153,360.36	96,093.33
Auxiliary enterprises:		
Bookstore	150,650.11	150,658.57
Food service	20,890.46	20,979.43
Other operating revenues	182,164.65	163,450.81
Total operating revenues	<u>10,727,091.71</u>	<u>9,314,596.80</u>
EXPENSES		
Operating expenses (Note 14):		
Salaries and wages	10,134,975.16	9,060,005.04
Benefits	2,978,151.74	2,424,318.53
Utilities, supplies, and other services	4,896,271.24	4,971,376.01
Scholarships and fellowships	2,970,131.79	2,371,291.46
Depreciation expense	1,097,588.77	1,035,937.40
Total operating expenses	<u>22,077,118.70</u>	<u>19,862,928.44</u>
Operating loss	<u>(11,350,026.99)</u>	<u>(10,548,331.64)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	10,669,220.00	9,863,920.00
Gifts	33,591.50	73,949.16
Investment income	130,613.19	185,759.79
Interest on capital asset-related debt	(165.00)	(1,152.50)
Other nonoperating expenses	(1,258.28)	(12,187.52)
Net nonoperating revenues	<u>10,832,001.41</u>	<u>10,110,288.93</u>
Loss before other revenues, expenses, gains, or losses	<u>(518,025.58)</u>	<u>(438,042.71)</u>
Capital appropriations	1,340,946.05	1,557,630.60
Capital grants and gifts	14,189.19	20,000.00
Other	4,049.53	-
Total other revenues	<u>1,359,184.77</u>	<u>1,577,630.60</u>
Increase in net assets	<u>841,159.19</u>	<u>1,139,587.89</u>
NET ASSETS		
Net assets - beginning of year	29,598,272.29	37,258,380.09
Cumulative effects of changes in accounting principle (Note 11)		
Change in method of capitalizing library holdings	-	(1,507,594.18)
Adoption of depreciation on capital assets	-	(7,433,138.57)
Deferred revenue recognition	-	306,129.44
Prepaid expense recognition	-	(165,092.38)
Net assets - beginning of year, as restated	<u>29,598,272.29</u>	<u>28,458,684.40</u>
Net assets - end of year	<u>\$ 30,439,431.48</u>	<u>\$ 29,598,272.29</u>

The notes to the financial statements are an integral part of this statement.

NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 4,453,912.07	\$ 4,063,196.03
Grants and contracts	5,950,410.74	4,754,794.19
Payments to suppliers and vendors	(4,952,801.45)	(4,869,452.68)
Payments to employees	(10,154,054.86)	(9,025,859.70)
Payments for benefits	(2,896,967.07)	(2,311,029.68)
Payments for scholarships and fellowships	(2,968,554.06)	(2,375,030.39)
Auxiliary enterprise charges:		
Bookstore	148,425.00	140,071.00
Food services	21,119.94	20,509.57
Other receipts (payments)	185,176.15	158,751.12
Net cash provided (used) by operating activities	<u>(10,213,333.54)</u>	<u>(9,444,050.54)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	10,748,320.00	9,768,820.00
Gifts and grants received for other than capital or endowment purposes	5,000.00	12,000.00
Federal student loan receipts	1,407,025.77	957,080.32
Federal student loan disbursements	(1,409,027.43)	(954,802.66)
Changes in deposits held for others	378,176.38	77,445.91
Net cash provided (used) by noncapital financing activities	<u>11,129,494.72</u>	<u>9,860,543.57</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	1,332,195.08	1,583,881.60
Capital grants and gifts received	14,189.19	20,000.00
Insurance proceeds	548,711.80	350,000.00
Repairs to a capital asset	(548,711.80)	(350,000.00)
Purchases of capital assets and construction	(2,105,925.85)	(1,205,241.80)
Principal paid on capital debt and leases	(33,040.00)	(33,040.00)
Interest paid on capital debt and leases	(495.00)	(1,477.50)
Net cash provided (used) by capital and related financing activities	<u>(793,076.58)</u>	<u>364,122.30</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	130,613.19	185,759.79
Net cash provided (used) by investing activities	<u>130,613.19</u>	<u>185,759.79</u>
Net increase (decrease) in cash and cash equivalents	253,697.79	966,375.12
Cash and cash equivalents - beginning of year	8,316,592.65	7,350,217.53
Cash and cash equivalents - end of year	<u>\$ 8,570,290.44</u>	<u>\$ 8,316,592.65</u>

NORTHEAST STATE TECHNICAL COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (11,350,026.99)	\$ (10,548,331.64)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	1,097,588.77	1,035,937.40
Gifts of supplies and computer	28,591.50	61,949.16
Change in assets and liabilities:		
Receivables, net	(165,885.41)	(221,604.63)
Inventories	4,668.81	(4,148.73)
Prepaid expenses and deferred charges	5,325.96	(117,494.10)
Accounts payable	(83,817.70)	42,468.25
Accrued liabilities	164,095.55	181,857.57
Deferred revenue	31,262.83	51,230.12
Compensated absences	54,863.14	74,086.06
Net cash used by operating activities	<u>\$ (10,213,333.54)</u>	<u>\$ (9,444,050.54)</u>
Non-Cash Transactions		
Gifts of supplies and computer to the college	\$ 28,591.50	\$ 61,949.16
Loss on retirement of equipment	\$ (1,258.28)	\$ -

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements
June 30, 2003, and June 30, 2002**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) interest on capital asset-related debt; and (4) gifts.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

Inventories

Inventories are valued at the lower of cost or market, on a first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Northeast State Technical Community College Foundation

The college is the sole beneficiary of the Northeast State Technical Community College Foundation. A board independent of the college controls this private, nonprofit foundation. The college handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the college's statement of net assets.

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Expendable restricted net assets – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2003, cash and cash equivalents consisted of \$79,503.63 in bank accounts, \$720.00 of petty cash on hand, \$8,338,818.73 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$11,873.51 in LGIP deposits for capital projects, \$32,089.42 in money market mutual funds, and \$107,285.15 on deposit with the State Treasurer. At June 30, 2002, cash and cash equivalents consisted of \$232,376.31 in bank accounts, \$750.00 of petty cash on hand, \$7,937,006.89 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$17,993.62 in LGIP deposits for capital projects, \$21,180.68 in money market mutual funds, and \$107,285.15 on deposit with the State Treasurer.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. DEPOSITS

The college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2003, the carrying amount of the college's deposits was \$79,503.63, and the bank balance including accrued interest was \$225,011.28. The bank balance was insured. At June 30, 2002, the carrying amount of the college's deposits was \$232,376.31, and the bank balance including accrued interest was \$417,767.20. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment

Tennessee Board of Regents
Northeast State Technical Community College
Notes to the Financial Statements (Cont.)
June 30, 2003, and June 30, 2002

investments be prudently diversified. The Northeast State Technical Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Category 1:		
Corporate stocks	\$7.78	\$152.84
Category 3:		
U.S. government securities	11,568.80	10,900.00
Corporate bonds	167,113.50	41,891.30
Investments not susceptible to credit risk categorization:		
Mutual funds	2,188,211.16	2,057,315.35
Amount classified as cash equivalents	<u>(32,089.42)</u>	<u>(21,180.68)</u>
Total	<u><u>\$2,334,811.82</u></u>	<u><u>\$2,089,078.81</u></u>

NOTE 5. RECEIVABLES

Receivables included the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Student accounts receivable	\$447,007.72	\$400,840.38
Grants receivable	244,123.88	296,285.67

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Pledges receivable	2,051.49	2,659.88
State appropriation receivable	16,000.00	95,100.00
Other receivables	<u>220,740.85</u>	<u>489,003.10</u>
Subtotal	929,923.94	1,283,889.03
Less allowance for doubtful accounts	<u>10,203.47</u>	<u>17,267.39</u>
Total receivables	<u><u>\$919,720.47</u></u>	<u><u>\$1,266,621.64</u></u>

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,829,286.64	\$ -	\$ -	\$ -	\$1,829,286.64
Land improvements and infrastructure	606,541.22	222,369.28	169,868.27	-	998,778.77
Buildings	24,520,331.23	230,790.84	32,138.25	-	24,783,260.32
Equipment	2,736,458.71	322,022.27	-	60,863.41	2,997,617.57
Library holdings	1,620,936.53	131,480.66	-	96,884.07	1,655,533.12
Projects in progress	<u>202,006.52</u>	<u>216,737.24</u>	<u>(202,006.52)</u>	<u>-</u>	<u>216,737.24</u>
Total	<u>31,515,560.85</u>	<u>1,123,400.29</u>	<u>-</u>	<u>157,747.48</u>	<u>32,481,213.66</u>
Less accumulated depreciation:					
Buildings	5,485,794.83	641,453.96	-	988,755.63	5,138,493.16
Land improvements and infrastructure	251,516.92	45,960.02	-	-	297,476.94
Equipment	1,817,267.11	244,621.48	-	57,424.59	2,004,464.00
Library holdings	<u>800,214.60</u>	<u>165,553.31</u>	<u>-</u>	<u>96,884.07</u>	<u>868,883.84</u>
Total accum. depreciation	<u>8,354,793.46</u>	<u>1,097,588.77</u>	<u>-</u>	<u>1,143,064.29</u>	<u>8,309,317.94</u>
Capital assets, net	<u><u>\$23,160,767.39</u></u>	<u><u>\$25,811.52</u></u>	<u><u>\$ -</u></u>	<u><u>\$(985,316.81)</u></u>	<u><u>\$24,171,895.72</u></u>

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Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$1,829,286.64	\$ -	\$ -	\$ -	\$1,829,286.64
Land improvements and infrastructure	606,541.22	-	-	-	606,541.22
Buildings	14,235,246.65	618,402.13	9,666,682.45	-	24,520,331.23
Equipment	2,687,077.75	110,944.52	-	61,563.56	2,736,458.71
Library holdings	1,408,294.82	277,548.18	-	64,906.47	1,620,936.53
Projects in progress	<u>9,670,342.00</u>	<u>198,346.97</u>	<u>(9,666,682.45)</u>	<u>-</u>	<u>202,006.52</u>
Total	<u>30,436,789.08</u>	<u>1,205,241.80</u>	<u>-</u>	<u>126,470.03</u>	<u>31,515,560.85</u>
Less accumulated depreciation:					
Buildings	4,867,007.68	618,787.15	-	-	5,485,794.83
Land improvements and infrastructure	225,168.65	26,348.27	-	-	251,516.92
Equipment	1,637,934.82	228,708.33	-	49,376.04	1,817,267.11
Library holdings	<u>703,027.42</u>	<u>162,093.65</u>	<u>-</u>	<u>64,906.47</u>	<u>800,214.60</u>
Total accum. depreciation	<u>7,433,138.57</u>	<u>1,035,937.40</u>	<u>-</u>	<u>114,282.51</u>	<u>8,354,793.46</u>
Capital assets, net	<u>\$23,003,650.51</u>	<u>\$169,304.40</u>	<u>\$ -</u>	<u>\$12,187.52</u>	<u>\$23,160,767.39</u>

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NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$15,000.00	\$ -	\$15,000.00	\$ -	\$ -
Loans	<u>18,040.00</u>	<u>-</u>	<u>18,040.00</u>	<u>-</u>	<u>-</u>
Subtotal	<u>33,040.00</u>	<u>-</u>	<u>33,040.00</u>	<u>-</u>	<u>-</u>
Other liabilities:					
Compensated absences	<u>510,459.32</u>	<u>54,863.14</u>	<u>-</u>	<u>565,322.46</u>	<u>186,234.96</u>
Subtotal	<u>510,459.32</u>	<u>54,863.14</u>	<u>-</u>	<u>565,322.46</u>	<u>186,234.96</u>
Total long-term liabilities	<u>\$543,499.32</u>	<u>\$54,863.14</u>	<u>\$33,040.00</u>	<u>\$565,322.46</u>	<u>\$186,234.96</u>

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$30,000.00	\$ -	\$15,000.00	\$15,000.00	\$15,000.00
Loans	<u>36,080.00</u>	<u>-</u>	<u>18,040.00</u>	<u>18,040.00</u>	<u>18,040.00</u>
Subtotal	<u>66,080.00</u>	<u>-</u>	<u>33,040.00</u>	<u>33,040.00</u>	<u>33,040.00</u>
Other liabilities:					
Compensated absences	<u>436,373.26</u>	<u>74,086.06</u>	<u>-</u>	<u>510,459.32</u>	<u>268,682.65</u>
Subtotal	<u>436,373.26</u>	<u>74,086.06</u>	<u>-</u>	<u>510,459.32</u>	<u>268,682.65</u>
Total long-term liabilities	<u>\$502,453.26</u>	<u>\$74,086.06</u>	<u>\$33,040.00</u>	<u>\$543,499.32</u>	<u>\$301,722.65</u>

Notes Payable

The Tennessee Board of Regents, on behalf of the college, borrowed funds to purchase computer equipment. The notes had an annually adjusted interest rate not to exceed 6.9%, face amounts totaling \$130,000, a minimum annual debt service of \$15,000, and were due serially to September 2002. The balance owed by the college was \$15,000 at June 30, 2002.

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Loans Payable

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the State of Tennessee's Energy Management Loan program to upgrade lighting in the General Studies Building. The loan bore no interest, had a principal amount of \$72,160, a minimum annual debt service of \$18,040, and a due date of October 1, 2002. The balance owed by the college was \$18,040 at June 30, 2002.

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Working capital	\$384,966.64	\$235,119.81
Encumbrances	293,909.04	904,904.30
Designated fees	137,716.74	82,764.01
Auxiliaries	30,795.09	28,804.33
Plant construction	3,473,164.83	3,737,885.36
Renewal and replacement of equipment	1,521,956.56	1,064,732.71
Debt retirement	-	37,593.84
Unreserved/undesignated	<u>382,192.02</u>	<u>338,854.61</u>
Total	<u><u>\$6,224,700.92</u></u>	<u><u>\$6,430,658.97</u></u>

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*,

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establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 7.29% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2003, 2002, and 2001 were \$379,909.97, \$292,233.99, and \$267,520.33. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$356,643.31 for the year ended June 30, 2003, and

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\$311,287.98 for the year ended June 30, 2002. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically (1) a change in the method of capitalizing library holdings; (2) the adoption of depreciation on capital assets; and (3) the recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted. The cumulative effects of these changes on net assets are shown below:

Change in method of capitalizing library holdings	(\$1,507,594.18)
Adoption of depreciation on capital assets	(\$7,433,138.57)
Deferred revenue recognition	\$306,129.44
Prepaid expense recognition	(\$165,092.38)

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NOTE 12. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has had no claims filed with the commercial insurer. Designations for casualty losses in the amount of \$3.271 million for incurred losses at June 30, 2003, and \$5 million for deductibles and \$1.356 million for incurred losses at June 30, 2002, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2003, the scheduled coverage for the college was \$32,830,400 for buildings and \$11,473,350 for contents. At June 30, 2002, the scheduled coverage for the college was \$28,891,100 for buildings and \$11,326,900 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of

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claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$2,504,101.30 at June 30, 2003, and \$2,226,516.03 at June 30, 2002.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$167,304.00 and for personal property were \$70,600.48 for the year ended June 30, 2003. Amounts for the year ended June 30, 2002, were \$167,304.00 and \$68,897.28. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2003, outstanding commitments under construction contracts totaled \$231,259.81 for renovation of the administration building, development of the entrance to the college, and other infrastructure upgrades, of which \$231,259.81 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in a lawsuit with the potential for a significant settlement. Due to the uncertainties involved, an estimate of the possible loss cannot be made.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

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<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$5,694,986.38	\$1,534,427.12	\$1,769,981.36	\$43,586.67	\$ -	\$9,042,981.53
Public service	-	-	513.15	-	-	513.15
Academic support	1,122,118.51	343,695.95	155,834.11	5,826.00	-	1,627,474.57
Student services	1,504,866.04	469,718.88	782,159.80	101,576.07	-	2,858,320.79
Institutional support	1,211,696.63	391,452.96	539,563.00	3,092.00	-	2,145,804.59
Operation & maintenance of plant	601,307.60	238,856.83	1,648,219.82	-	-	2,488,384.25
Scholarships & fellowships	-	-	-	2,816,051.05	-	2,816,051.05
Depreciation	-	-	-	-	1,097,588.77	1,097,588.77
Total	<u>\$10,134,975.16</u>	<u>\$2,978,151.74</u>	<u>\$4,896,271.24</u>	<u>\$2,970,131.79</u>	<u>\$1,097,588.77</u>	<u>\$22,077,118.70</u>

The college's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$5,202,433.36	\$1,283,232.71	\$1,477,599.71	\$ -	\$ -	\$7,963,265.78
Public service	-	-	531.04	-	-	531.04
Academic support	975,548.58	261,003.85	201,353.95	-	-	1,437,906.38
Student services	1,271,323.43	366,294.70	770,418.34	-	-	2,408,036.47
Institutional support	1,094,683.41	320,103.95	447,005.92	-	-	1,861,793.28
Operation & maintenance of plant	516,016.26	193,683.32	2,074,467.05	-	-	2,784,166.63
Scholarships & fellowships	-	-	-	2,371,291.46	-	2,371,291.46
Depreciation	-	-	-	-	1,035,937.40	1,035,937.40
Total	<u>\$9,060,005.04</u>	<u>\$2,424,318.53</u>	<u>\$4,971,376.01</u>	<u>\$2,371,291.46</u>	<u>\$1,035,937.40</u>	<u>\$19,862,928.44</u>